

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2011-3-E**  
**August 17, 2011**

IN RE:

Annual Review of Base Rates for Fuel Costs	)	<b>SETTLEMENT AGREEMENT</b>
for Duke Energy Carolinas, LLC	)	

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This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff (“ORS”), the South Carolina Energy Users Committee (“SCEUC”), and Duke Energy Carolinas, LLC (“Duke Energy Carolinas” or “the Company”) (collectively referred to as the “Parties” or sometimes individually as a “Party”).

WHEREAS, the above-captioned proceeding has been established by the Public Service Commission of South Carolina (“Commission”) pursuant to the procedures in S.C. Code Ann. §58-27-865 (Supp. 2010), and the Parties to this Settlement Agreement are parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interests;

WHEREAS, following those discussions the Parties have each determined that their interests and the public interest would be best served by settling all issues pending in the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony and exhibits of ORS witnesses A. Randy Watts and Robert A. Lawyer, without objection or cross-examination by the Parties. The Parties also agree to stipulate into the record before the Commission the redacted public and unredacted confidential pre-filed direct testimony and exhibits of Duke Energy Carolinas witnesses Sharon S. Babcock and John W. Pitesa, and the pre-filed direct testimony and exhibits of John J. Roebel, Marion Elliott Batson, and David C. Culp without objection or cross-examination by the Parties. The Parties agree that no other evidence will be offered in the proceeding by the Parties other than the stipulated testimony and exhibits and this Settlement Agreement. The Parties agree to present all witnesses at the scheduled hearing in this matter.

2. As a compromise to positions advanced by Duke Energy Carolinas, ORS, and SCEUC, all Parties agree to the proposal set out immediately below, and this proposal is hereby adopted, accepted, and acknowledged as the agreement of the Parties.

3. ORS analyzed the cumulative under-recovery of base fuel costs that Duke Energy Carolinas had incurred for the period June 2010 through May 2011 totaling (\$528,767). ORS added the estimated under-recovery of (\$4,490,209) for the month of June 2011, the estimated under-recovery of (\$5,771,424) for the month of July 2011, the estimated under-recovery of (\$7,076,592) for the month of August 2011, and the estimated under-recovery of (\$10,601,424) for the month of September 2011, to arrive at an estimated cumulative under-recovery of (\$28,468,416) as of September 2011. Duke Energy Carolinas' cumulative under-recovery for base fuel costs, per its testimony in this docket, as of May 2011 totals (\$1,857,000), and as of September 2011 the estimated

cumulative under-recovery totals (\$29,796,000). The difference between Duke Energy Carolinas' and ORS's cumulative under-recovery as of actual May 2011 totals \$1,328,233. The difference between Duke Energy Carolinas' and ORS's estimated cumulative under-recovery as of September 2011 totals \$1,327,584.

4. Exhibit 6 to the direct testimony of Duke Energy Carolinas witness Sharon Babcock recognizes that Duke Energy Carolinas included in its base fuel cost calculation the under-collected amount of (\$29,796,000) shown on Babcock Exhibit 5 plus an amount of \$1,255,000 that it over-collected from its SC retail customers related to the Coal Inventory Rider.

5. ORS analyzed the cumulative over-recovery of environmental costs that Duke Energy Carolinas had incurred for the period June 2010 through May 2011 totaling \$3,595,468. ORS added the estimated under-recovery of (\$111,926) for the month of June 2011, the estimated under-recovery of (\$204,129) for the month of July 2011, the estimated under-recovery of (\$203,889) for the month of August 2011 and the estimated under-recovery of (\$61,499) for the month of September 2011, to arrive at an estimated cumulative over-recovery of \$3,014,025 as of September 2011. Duke Energy Carolinas' cumulative over-recovery for environmental costs, per its testimony in this docket, as of May 2011 totals \$3,597,000, and as of September 2011 the estimated cumulative over-recovery totals \$3,016,000. The difference between Duke Energy Carolinas' and ORS's cumulative over-recovery as of actual May 2011 totals \$1,532. The difference between Duke Energy Carolinas' and ORS's estimated cumulative over-recovery, as of September 2011, totals \$1,975.

6. The Parties agree to accept all accounting adjustments as put forth in ORS witness Lawyer's pre-filed direct testimony related to the over/under-recovery on fuel and environmental costs, and acknowledge that the over-collected amount of \$1,255,000 related to the Coal Inventory Rider is reflected on Babcock Exhibit 6.

7. The appropriate fuel factors for Duke Energy Carolinas to charge for the period beginning with the first billing cycle in October 2011 extending through the last billing cycle of September 2012 are listed below. These fuel factors include environmental costs and the under-recovered fuel costs.

Class of Service	SC Base Fuel Factor (¢/kWh)	SC Environmental Factor (¢/kWh)	SC Combined Projected Fuel Factor (¢/kWh)
Residential	2.5273	0.0629	2.5902
General/Lighting	2.5273	0.0466	2.5739
Industrial	2.5273	0.0236	2.5509

8. The Parties agree that the fuel factors as set forth in Paragraph 6 above are consistent with S.C. Code Ann. §58-27-865 (Supp. 2010).

9. The Parties agree that the following two matters with respect to reagent costs are subject to true-up in the Duke Energy Carolinas 2012 fuel hearing: (1) booked cost versus actual cost and (2) booked sales and use tax versus actual sales and use tax.

10. The Parties agree that in an effort to keep the Parties and Duke Energy Carolinas' customers informed of the over/under recovery balances related to fuel costs and of Duke Energy Carolinas' commercially reasonable efforts to forecast the expected fuel factor to be set at its next annual fuel proceeding, Duke Energy Carolinas will provide to SCEUC, ORS, and where applicable, its customers the following information:

- (a) copies of the monthly fuel recovery reports currently filed with the Commission and ORS; and
- (b) forecasts of the expected fuel factor to be set at its next annual fuel proceeding based upon Duke Energy Carolinas' historical over/under recovery to date and Duke Energy Carolinas' forecast of prices for uranium, natural gas, coal, oil and other fuel required for generation of electricity. Such forecasts will be provided in the 4<sup>th</sup> quarter of the calendar year prior to the next annual fuel proceeding and in the 2nd quarter of the calendar year of the Company's next annual fuel proceeding. Duke Energy Carolinas will use commercially reasonable efforts in making these forecasts. To the extent that the forecast data required hereunder is confidential, any party or customer that wants forecasted fuel data will have to sign a non-disclosure agreement agreeing to protect the data from public disclosure and to only disclose it to employees or agents with a need to be aware of this information.

11. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of all issues currently pending in the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

12. The Parties agree that any and all challenges to Duke Energy Carolinas' historical fuel costs and revenues for the period ending May 2011 are not subject to

further review; however, outages not complete as of May 31, 2011 and outages where final reports (Company, contractor or government reports or otherwise) are not available may be subject to further review in the review period the outage is complete or when the report(s) become available. Fuel costs and revenues for periods beginning June 2011 and thereafter shall be open issues in future proceedings and will continue to be trued-up against actual costs in such proceedings held under S.C. Code Ann. §58-27-865 (Supp. 2010).

13. The Parties agree this Settlement Agreement is reasonable, in the public interest, and in accordance with law and regulatory policy.

14. Further, ORS is charged with the duty to represent the public interest of South Carolina pursuant to S.C. Code §58-4-10(B) (Supp. 2010). S.C. Code §58-4-10(B)(1) through (3) reads in part as follows:

“...‘public interest’ means a balancing of the following:

- (1) Concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) Economic development and job attraction and retention in South Carolina; and
- (3) Preservation of the financial integrity of the State’s public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.”

15. This written Settlement Agreement contains the complete agreement of the Parties. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions held in future proceedings. If the Commission declines to approve the agreement in its entirety, then any Party desiring to

do so may withdraw from the agreement without penalty, within three (3) days of receiving notice of the decision, by providing written notice of withdrawal via electronic mail to all parties in that time period.

16. This Settlement Agreement shall be effective upon execution of the Parties and shall be interpreted according to South Carolina law.

17. This Settlement Agreement in no way constitutes a waiver or acceptance of the position of any Party concerning the requirements of S.C. Code Ann. §58-27-865 (Supp. 2010) in any future proceeding. This Settlement Agreement does not establish any precedent with respect to the issues resolved herein, and in no way precludes any Party herein from advocating an alternative methodology under S.C. Code Ann. §58-27-865 (Supp. 2010) in any future proceeding.

18. This Settlement Agreement shall bind and inure to the benefit of each of the signatories hereto and their representatives, predecessors, successors, assigns, agents, shareholders, officers, directors (in their individual and representative capacities), subsidiaries, affiliates, parent corporations, if any, joint ventures, heirs, executors, administrators, trustees, and attorneys.

19. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the Agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature

pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

(Signature Pages Follow)



Representing and binding South Carolina Energy Users Committee:



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Scott Elliott, Esquire  
Elliott & Elliott, P.A.  
1508 Lady Street  
Columbia, SC 29205  
Phone: (803) 771-0555  
Fax: (803) 771-8010  
Email: selliott@elliottlaw.us

Representing and binding Duke Energy Carolinas, LLC:

Brian L. Franklin NW

Brian L. Franklin, Esquire  
Associate General Counsel  
Duke Energy Corporation  
550 S. Tryon Street  
DEC45A/P.O. Box 1321  
Charlotte, NC 28201  
Phone: (980) 373-4465  
Fax: (980) 373-8534  
E-mail: Brian.Franklin@duke-energy.com

Representing and binding the South Carolina Office of Regulatory Staff:



Shannon Bowyer Hudson, Esquire

Shealy Boland Reibold, Esquire

South Carolina Office of Regulatory Staff

1401 Main Street, Suite 900

Columbia, SC 29201

Phone: (803) 737-0889

(803) 737-0863

Fax: (803) 737-0895

Email: [shudson@regstaff.sc.gov](mailto:shudson@regstaff.sc.gov)

[sreibol@regstaff.sc.gov](mailto:sreibol@regstaff.sc.gov)

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION**  
**OF SOUTH CAROLINA**  
**DOCKET NO. 2011-3-E**

IN RE:

Annual Review of Base Rates for Fuel Costs	)	<b>CERTIFICATE OF</b>
of Duke Energy Carolinas, LLC	)	
	)	
	)	

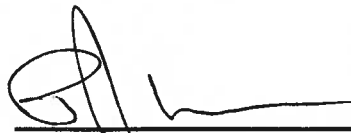
**SERVICE**

This is to certify that I, Pamela J. McMullan, have this date served one (1) copy of the **SETTLEMENT AGREEMENT** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Charles A. Castle, Esquire  
Brian L. Franklin, Esquire  
Duke Energy Carolinas, LLC  
Post Office Box 1006 (EC03T)  
Charlotte, NC, 28201-1006

Frank R. Ellerbe, III, Esquire  
Bonnie D. Shealy, Esquire  
Robinson McFadden & Moore, PC  
Post Office Box 944  
Columbia, SC, 29202

Scott Elliott  
Elliott & Elliott, P.A.  
1508 Lady Street  
Columbia, SC 29201

  
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Pamela J. McMullan

August 17, 2011  
Columbia, South Carolina